VZCZCXRO2418
RR RUEHVK
DE RUEHUL #1873/01 3340626
ZNR UUUUU ZZH
R 300626Z NOV 09
FM AMEMBASSY SEOUL
TO RUEHC/SECSTATE WASHDC 6347
RUCPDOC/USDOC WASHDC 9460
RUEATRS/DEPT OF TREASURY WASHDC
RUEHRC/DEPT OF AGRICULTURE WASHDC
RHEBAAA/DEPT OF ENERGY WASHDC
RUEAUSA/DEPT OF HHS WASHDC
RHEHNSC/NSC WASHINGTON DC
RUEHKO/AMEMBASSY TOKYO 7045
RUEHBJ/AMEMBASSY BEIJING 6986
RUEHGP/AMEMBASSY SINGAPORE 7510
RUEHHK/AMCONSUL HONG KONG 4048
RUEHSH/AMCONSUL SHENYANG 5363
RUEHVK/AMCONSUL VLADIVOSTOK 1773
RUEHIN/AIT TAIPEI 4296

UNCLAS SECTION 01 OF 03 SEOUL 001873

SENSITIVE

SIPDIS

E.O. 12958: N/A
TAGS: ECON EFIN EINV ENRG ETRD KS
SUBJECT: SOUTH KOREA ECONOMIC BRIEFING - NOVEMBER 2009

¶1. (U) This cable is sensitive but unclassified and not/not intended for Internet distribution.

In This Issue

-- Korea's Trade Dependency Over 90 Percent
-- Foreign Currency Reserves Continue to Rise
-- International Organizations Raise ROK Economic Outlook
-- Production Soared 11 Percent in September
-- Overseas Construction Orders Jump to USD 32 billion
-- ROKG to Expand Overseas Agriculture Aid
-- Trade Surplus Drops in October on Falling Exports
-- Tax Office Targets Illegal Capital Outflow
-- Korea's Current Account Resurged in September
-- Korea Ranks 26th in World Prosperity Index
-- Korea Waives Building Restrictions in Seoul to Attract FDI
-- Hynix Sale Facing Tough Road Ahead
-- Domestic Banks Lose 1.2 Trillion Won in Derivatives Trading
-- Government to Aid Shipbuilding and Shipping Industries

Domestic Economy

¶2. (SBU) Korea's Trade Dependency Over 90 Percent: The Ministry of Strategy and Finance (MOSF) reported the total trade dependency in 2008 reached a record-high 92.3 percent. Trade dependency is defined as exports plus imports divided by gross domestic product. Korea's dependency on trade had been in the 50-70 percent range since the year 2000. Surging by nearly 30 percentage points last year, Korea now ranks 11th in trade dependency out of 93 countries surveyed in 2008. The dependency for the first six months of this year declined to 83.8 percent due to sluggish external demand caused by the global economic crisis.

¶3. (SBU) Foreign Currency Reserves Continue to Rise: The Bank of Korea reported that foreign currency reserves swelled by USD 9.94 billion from September to USD 264.19 billion at the end of October, the largest amount since posting USD 264.25 billion in March 2008. Monthly gains over the past eight months have reached USD 62.65 billion. With the current pace, foreign reserves are expected to break a record high in November.

¶4. (SBU) International Organizations Raise ROK Economic Outlook: On

November 10, the World Bank raised its forecast for Korea's economic growth for 2009 from -3 to -3.5 percent to -0.7 percent. The Bank also raised its forecast for Korea's 2010 GDP growth to 3.7 percent from its previous projection of two percent. The World Bank attributed its upgrade to Korea's improved export competitiveness. Meanwhile, the Organization for Economic Cooperation and Development (OECD) said on November 19 that the Korean economy will expand by 4.4 percent next year, hinting that it will undergo a V-shaped recovery. OECD
Secretary General Angel Gurria advised, however, that the government should maintain its economic stimulus measures because growth was still at an early stage and appeared to be mostly driven by state-led expansionary policies.

¶5. (SBU) Production Soared 11 Percent in September: The NSO said that production in the mining, manufacturing, electric, and gas industries increased 11 percent from a year earlier in September, rising for three consecutive months. On a month-on-month basis, production grew 5.4 percent from August, swinging back after dropping 1.3 percent a month earlier. Sales of consumer goods gained 1.8 percent from August and 6.7 percent from a year earlier, while facilities investment jumped 18.8 percent month-on-month and 5.8 percent year-on-year.

¶6. (SBU) Overseas Construction Orders Jump to USD 32 billion: According to the Ministry of Land, Transport and Maritime Affairs and the International Contractors Association of Korea, overseas construction orders granted to domestic companies totaled USD 32.3 billion as of November 3, 2009, exceeding USD 30 billion in annual terms for the third consecutive year and marking the third largest total since 1965, when Korea began overseas construction projects.

The figure is expected to reach USD 40 billion by year-end.

¶7. (SBU) ROKG to Expand Overseas Agriculture Aid: On November 17, ROKG officials announced an increase in agricultural aid to developing countries suffering from chronic food shortages. In a keynote address at the Food and Agriculture Organization's (FAO) food security meeting in Rome, Chang Tae-pyong, Minister of Food, Agriculture, Forestry and Fisheries, said South Korea will donate 150,000 tons of rice to the Asian Emergency Food Reserve Program. This follows a September announcement that the country would provide USD 100 million in aid over the next three years to help improve food security issues for developing economies.

¶8. (SBU) Trade Surplus Drops in October on Falling Exports: Korea's trade surplus fell slightly in October from a month earlier as exports declined and imports slightly increased. According to the Korea Customs Service (KCS), the nation's trade surplus stood at USD 3.63 billion in October compared to USD 4.7 billion the previous month. Exports fell 1.6 percent on-month to USD 34 billion in October, while imports rose 1.8 percent to USD 30.3 billion. On an annual basis, exports fell 8.5 percent and imports dropped 16 percent from a year before. In the first ten months of the year, cumulative exports reached USD 294 billion, down 19.7 percent from a year ago, while cumulative imports fell 31.5 percent on-year to USD 260.3 billion. KCS predited the nation's trade volume would expand in the coming months from rising imports of oil products.

¶9. (SBU) Tax Office Targets Illegal Capital Outflow: The National Tax Service (NTS) created an "Overseas Tax Evasion Report Center" on November 18 to crack down on offshore tax evaders and monitor illegal capital outflows. The Center will collect and analyze information on suspicious investments offshore, and coordinate with foreign agencies to share information on tax crimes. In particular, NTS will monitor firms which open shell companies in tax havens overseas and then remit money to the ROK.

¶10. (SBU) Korea's Current Account Resurged in September: The Bank of Korea (BOK) stated that thanks to a soaring trade surplus in goods, the current account surplus amounted to USD 4.2 billion in September, more than double the figure recorded in August. Both imports and exports in September sharply rose by USD 2.78 billion and USD 4.89 billion from the previous month to USD 29.7 billion and USD 35.2 billion, respectively, while the year-on-year drops in

imports and exports narrowed to 23.9 percent and 7.9 percent.

¶11. (SBU) Korea Ranks 26th in World Prosperity Index: According to the Financial Times, Korea ranked 26th out of 104 countries in the Legatum Group's Prosperity Index. The Legatum Group (a London-based independent research, policy and advocacy organization) created the index, which is based on nine factors, including democracy, economy and governance. Korea received high scores in economic base, entrepreneurship/innovation, education and governance, while needing improvement in individual liberty. Finland ranked first in the index.

Finance and Structural Policies

¶12. (SBU) Korea Waives Building Restrictions to Attract FDI: In the interest of promoting foreign investment, the Ministry of Knowledge Economy (MKE) will waive the factory building restriction at non-industrial complex zones in the Seoul metropolitan area for foreign companies making large investments in Korea. Foreign companies must plan to invest at least USD 30 million to qualify for the exemption.

¶13. (SBU) Hynix Sale Facing Tough Road Ahead: Creditors of Hynix Semiconductor have agreed to sell their combined stakes in the world's second largest memory chipmaker through an open bidding process. However, officials doubt that the INcheon-based technology firm will find the right buyer by next month. The collective 28.07-percent stake is worth about 4 trillion won (USD 3.5 billion). Korea Exchange Bank (KEB), representing creditors, plans to issue invitations for the auction to domestic companies between November 25 and December 15. The action follows Hyosung Group's recent decision to retract its bid. Although top Hynix sources are hoping that one of the nation's top-10 conglomerates will register a bid, POSCO, LG Group, SK Group and Hyundai Heavy officials have told

local media they are not interested. Creditors may also sell 10 to 15 percent stakes to institutional investors through block sales if the public auction is unsuccessful.

¶14. (SBU) Domestic Banks Lose 1.2 Trillion Won in Derivatives Trading: The Korea Institute of Finance (KIF) estimated that five major domestic banks - Kookmin, Woori, Shinhan, Korea Exchange and Hana - have lost 1.2 trillion won (USD 1 billion) from investments in derivatives in the first half of this year. The think tank also claims the losses are in stark contrast to the success of two major foreign banks - Citibank Korea and Standard Chartered Korea - which enjoyed combined gains of 495.4 billion won (USD 430 million) from derivatives transactions during the same period. The institute said that the seven banks earned 601.4 billion won (USD 545 million) in products for the first half in 2008, but lost 406 billion won (USD 368 million) in the second half of last year due to the global financial crisis that swept the world in August 2008. Outstanding derivatives contracts held by all seven banks fell 13.8 percent year-on-year to 1,398.4 trillion won (USD 1.216 billion) by the end of June. Standard Chartered Korea ranked in the top spot with an outstanding balance of 328.9 trillion (USD 286 billion), followed by Shinhan Bank (244.2 trillion won or USD 212 billion) and Citibank Korea (203.4 trillion won or USD 177 billion).

¶15. (SBU) Government to Aid Shipbuilding and Shipping Industries: On November 9, the government announced intentions provide more liquidity to the shipbuilding and shipping industries. Based on the decision, the government will expand financial aid for companies in ship manufacturing and ease requirements on the loan-to-value ratio for shipping companies. This program will most likely impact smaller shipbuilders, but will be open to all shipbuilding companies with liquidity problems. Con- currently, the government will continue restructuring the eight shipbuilding companies that received grades of C and D in a credit risk evaluation, and encourage them to redirect their businesses into repair dockyards or ship component factories.

STEPHENS